



## COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT

CITY OF SAN DIEGO

### MEMORANDUM

DATE: June 30, 2009

TO: Commissioners of the Port of San Diego

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Port of San Diego's Role in Convention Center Financing

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There is no question that the Convention Center is an important regional economic asset -- as it helps to support more than 160,000 local jobs in the travel & tourism industry. The Convention Center also helps to support revenues for the City's General Fund and generates revenues for the Port of San Diego through parking franchises and hotel/retail leases.

I remain cautiously optimistic and generally supportive of the Convention Center expansion concept under two conditions:

- 1) Market and cost-benefit analyses must demonstrate the necessity and sufficient net benefit of the expansion.
- 2) The expansion must be financed without General Fund subsidization or tax increases on San Diego's working families. Furthermore, the issue of annual operating subsidies from the City must be adequately addressed.

My office is examining ways for the Port to play a more pro-active and equitable role in the financing of the Convention Center as a key regional economic asset. The expansion notwithstanding, I am also very concerned about the potential impact to the General Fund in anticipated shifts in debt service for the Phase 2 expansion from the Port to the City of San Diego.

To assist in our review of this project, I am requesting that the following financial data be provided to my office:

- **Phase 2 Financing Arrangements:** Currently, the Port and the City of San Diego have an agreement where the annual cost of Convention Center (Phase 2) Expansion debt service is shared by amounts of \$4.5 million and \$9.2 million between the two government entities, respectively. The payments on this debt are scheduled to continue until April of 2028. Does the Port's annual contribution (\$4.5 million) toward the above-mentioned debt service continue throughout the life of the debt, or will the City at some point be responsible for a greater share of the annual payment?
- **Convention Center Parking Revenues:** The Port receives a direct revenue stream from the underground parking at the Convention Center. The Port's FY 2010 budget allocates \$9.5 million in parking revenue, "a \$0.4 million increase primarily due to parking revenue from the Convention Center." What is the annual parking revenue received by the Port exclusively for the Convention Center?
- **Hotel/Retail Lease Revenues:** A substantial portion of sales for hotels and retail establishments on Port lands are generated from groups using the Convention Center. Under the lease agreements with these hotels and retail establishments, the Port derives revenues from these conventions. What is the estimated annual revenue stream to the Port from these agreements?
- **Port Financial Reserves:** It is my understanding that the Port has substantial unencumbered financial reserves valued at between \$60-100 million. What is the Port's current level of reserves? On a projected cash flow basis, what unencumbered funds are available in the next ten years on an annual basis?
- **Convention Center Hotel Concept:** One of the financing structures for the Convention Center expansion involves the inclusion of a 250-room hotel that would generate revenues to support the expanded Convention Center. It is my understanding that the current 250-room cap on this hotel may not be financially beneficial, but that a 500-room structure may prove to be financially viable. Could the 250-room limit be raised to 500? Additionally, what financial benefit could be achieved if the Port were to waive traditional lease revenue for the hotel and redirect those funds to support the Convention Center expansion?

The Convention Center could serve as an example of successful strategic collaboration between the City and the Port. As we consider the feasibility of a Phase 3 expansion of the Convention Center and confront the City's financial challenges, I want to ensure that the Port appropriately continues its collaboration and support for this regional economic asset.

I look forward to working with you on this important matter.

CC: Honorable Mayor and City Councilmembers